



# Vulcan Materials Company (VMC)

Updated February 19<sup>th</sup>, 2022 by Nathan Parsh

## Key Metrics

<b>Current Price:</b>	\$185	<b>5 Year CAGR Estimate:</b>	-1.6%	<b>Market Cap:</b>	\$24.6 billion
<b>Fair Value Price:</b>	\$126	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date:</b>	2/28/2022
<b>% Fair Value:</b>	146%	<b>5 Year Valuation Multiple Estimate:</b>	-7.3%	<b>Dividend Payment Date:</b>	3/14/2022
<b>Dividend Yield:</b>	0.9%	<b>5 Year Price Target</b>	\$161	<b>Years Of Dividend Growth:</b>	9
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Last Dividend Increase:</b>	8.1%

## Overview & Current Events

Vulcan Materials is a leading producer and distributor of crushed stone. The company has 380 aggregate production facilities across 20 U.S. states as well as the District of Columbia, the Bahamas and Mexico. The company shipped nearly 210 million tons of aggregates in 2020. In addition, Vulcan Materials operates 70 asphalt facilities and 46 concrete plants. Vulcan Materials has annual revenues of about \$7 billion.

On 8/26/2021, Vulcan Materials completed its \$1.3 billion purchase of U.S. Concrete.

On 2/11/2022, the company increased its quarterly dividend 8.1% to \$0.40.

Vulcan Materials reported fourth quarter and full year earnings results on 2/16/2022. For the quarter, revenue grew 36.4% to \$1.61 billion, \$20 million above estimates. Adjusted earnings-per-share of \$1.25 compared favorably to adjusted earnings-per-share of \$1.07 in the prior year and was \$0.08 above expectations. For the year, revenue increased 14% to \$5.6 billion while the company earned \$5.05 per share compared to \$4.41 in 2020.

The fourth quarter saw a 12.9% improvement in aggregates volumes while cash gross profit per ton increased 6% to \$7.41. Gross profit margin contracted 39 basis points due to higher transportation and employee costs. Asphalt volumes declined by 1% as volume growth in Alabama, New Mexico, and Tennessee were offset by a slight decrease in Arizona and California. Unit price for liquid asphalt did grow 5%. Concrete demand was strong in the legacy business as well as the from the contribution of U.S. Concrete. Prices improved 5%.

Vulcan Materials is expected to earn \$6.32 per share in 2022, which would be a 25% increase from the prior year. We have initiated our forecast accordingly.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	-\$0.42	\$0.16	\$1.56	\$1.72	\$3.11	\$2.38	\$3.87	\$4.67	\$4.41	\$5.05	<b>\$6.32</b>	<b>\$8.07</b>
<b>DPS</b>	\$0.04	\$0.04	\$0.22	\$0.40	\$0.80	\$1.00	\$1.12	\$1.24	\$1.36	\$1.48	<b>\$1.60</b>	<b>\$2.04</b>
<b>Shares<sup>1</sup></b>	130	131	132	133	132	132	132	132	133	133	<b>133</b>	<b>133</b>

Vulcan Materials' earnings-per-share have been highly erratic over the last decade. The company struggled during the 2007 to 2009 time period and earnings-per-share turned negative at the start of the previous decade. On the plus side, earnings-per-share have a compound annual growth rate of more than 16% since 2017. We believe that this growth rate can largely be attributed to the strength of the overall economy and the resulting demand for products. Product prices are very low for much of the company's business. For example, aggregates, which account for three-quarters of all revenue, typical sell for approximately \$15 per ton. This doesn't leave much margin for error for Vulcan Materials if demand were to decline. We believe an earnings-per-share growth rate of 5% annually through 2027 accounts for the robust demand for products recently with the likelihood of extreme weakness in a recession.

<sup>1</sup> Share count in millions

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Vulcan Materials cut its dividend every year from 2009 to 2012 as the company grappled with the recession's impact on business. The company has so aggressively raised its dividend in recent years that the compound annual growth rate is 10% since 2017.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	---	---	40.6	---	35.9	---	30.1	28	28.6	41.4	29.3	20.0
Avg. Yld.	0.1%	0.1%	0.3%	0.5%	0.7%	0.8%	1.0%	0.9%	1.1%	0.7%	0.9%	1.3%

Shares have decreased \$11, or 5.6%, since our 11/6/2021 update. With unpredictable earnings growth comes an unpredictable valuation. Shares of Vulcan Materials have traded with extremely high valuations over the last decade and that is when earnings-per-share have steadily increased. We believe a multiple of 20 times earnings is a fair valuation for such a volatile stock. Using expected earnings-per-share for the year, Vulcan Materials has a price-to-earnings ratio of 29.3. This implies that valuation reversion could be a significant headwind. Returning to our target valuation by 2027 would reduce annual returns by 7.3% per year during this time.

Vulcan Materials yields 0.9% today, which is less than the average yield of S&P 500 index.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	-10%	25%	14%	23%	26%	42%	29%	27%	31%	29%	25%	25%

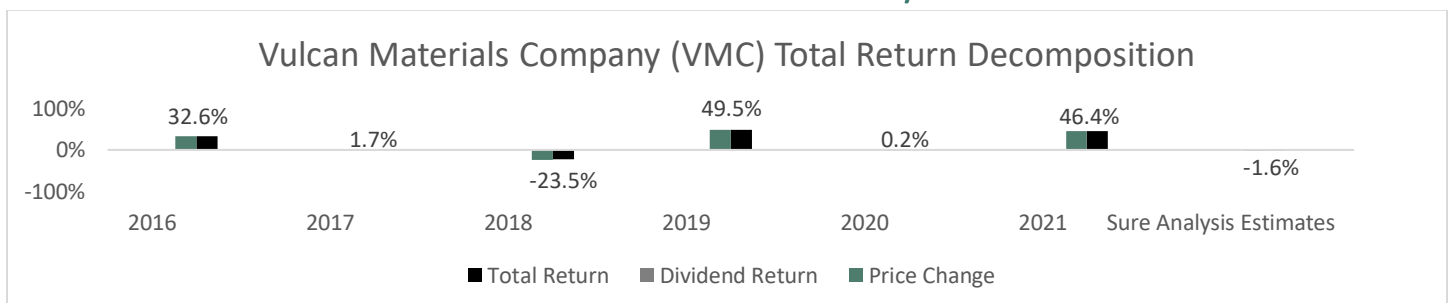
Vulcan Materials' business is highly correlated to the state of the economy. Earnings-per-share declined 63% from 2007 to 2008. The following year, earnings-per-share fell 91%. The company then posted three consecutive years of earnings-per-share losses as it struggled to rebound from the last recession.

Vulcan Materials is one of the larger names in its industry, which gives it some advantages against peers. However, the company is far from immune to downturns in the market. We do find the company's acquisition of U.S. Concrete a positive as this should enhance Vulcan Materials' presence in California, Texas and the Northeast. This should slightly reduce the company's reliance on the Gulf Coast for much of its revenues.

## Final Thoughts & Recommendation

Vulcan Materials is now expected to lose 1.6% annually through 2027, compared to our prior estimate of a loss of 7.6%. Our projected return stems from a 5% earnings growth rate and starting yield of 0.9% that are more than offset by a high single-digit headwind from valuation reversion. Vulcan Materials is a name that can perform extremely well when the economy is growing. On the other hand, the company struggles considerably when a recession takes place. We continue to believe that the stock should only be considered by those investors with a higher tolerance for risk. Due to projected returns, we continue to rate Vulcan Materials as a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	2,567	2,771	2,994	3,422	3,593	3,890	4,383	4,929	4,857	5,552
<b>Gross Profit</b>	334	427	588	858	989	994	1,101	1,256	1,281	1,373
<b>Gross Margin</b>	13.0%	15.4%	19.6%	25.1%	27.5%	25.5%	25.1%	25.5%	26.4%	24.7%
<b>SG&amp;A Exp.</b>	259	259	272	287	317	325	333	371	360	418
<b>Operating Profit</b>	26	153	297	540	650	621	733	854	892	891
<b>Op. Margin</b>	1.0%	5.5%	9.9%	15.8%	18.1%	16.0%	16.7%	17.3%	18.4%	16.0%
<b>Net Profit</b>	(53)	24	205	221	419	601	516	618	584	671
<b>Net Margin</b>	-2.0%	0.9%	6.8%	6.5%	11.7%	15.5%	11.8%	12.5%	12.0%	12.1%
<b>Free Cash Flow</b>	145	81	36	230	294	185	364	600	708	561
<b>Income Tax</b>	(66)	(24)	92	95	125	(232)	105	135	156	200

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	8,127	8,259	8,041	8,302	8,471	9,505	9,832	10,649	11,687	13,683
<b>Cash &amp; Equivalents</b>	275	194	141	284	259	142	40	272	1,197	235
<b>Acc. Receivable</b>	278	323	355	397	398	434	512	532	513	833
<b>Inventories</b>	335	345	322	347	346	384	429	458	449	521
<b>Goodwill &amp; Int.</b>	3,779	3,779	3,853	3,861	3,864	4,186	4,261	4,259	4,296	5,446
<b>Total Liabilities</b>	4,366	4,321	3,864	3,847	3,899	4,536	4,629	5,027	5,660	7,115
<b>Accounts Payable</b>	113	139	145	176	145	197	216	265	273	
<b>Long-Term Debt</b>	2,677	2,522	1,985	1,980	1,983	2,855	2,912	2,784	3,288	3,880
<b>Total Equity</b>	3,761	3,938	4,177	4,454	4,572	4,969	5,203	5,622	6,027	6,545
<b>LTD/E Ratio</b>	0.71	0.64	0.48	0.44	0.43	0.57	0.56	0.50	0.55	0.59

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	-0.6%	0.3%	2.5%	2.7%	5.0%	6.7%	5.3%	6.0%	5.2%	5.3%
<b>Return on Equity</b>	-1.4%	0.6%	5.1%	5.1%	9.3%	12.6%	10.1%	11.4%	10.0%	10.7%
<b>ROIC</b>	-0.8%	0.4%	3.2%	3.5%	6.5%	8.4%	6.5%	7.5%	6.6%	6.8%
<b>Shares Out.</b>	130	131	132	133	132	132	132	132	133	133
<b>Revenue/Share</b>	19.79	21.08	22.51	25.33	26.46	28.84	32.73	36.95	36.45	41.59
<b>FCF/Share</b>	1.12	0.62	0.27	1.70	2.17	1.37	2.72	4.50	5.31	4.20

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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